UNITED TECHNOLOGIES CORP /DE/
Form 10-Q
July 26, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

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FORM 10-Q

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ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-812

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UNITED TECHNOLOGIES CORPORATION

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DELAWARE 06-0570975

One Financial Plaza, Hartford, Connecticut 06103
(860) 728-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý. No ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý. No ¨.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ý | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company ¨ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨. No ý.

At June 30, 2013 there were 917,509,315 shares of Common Stock outstanding.

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UNITED TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
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Quarter Ended June 30, 2013


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United Technologies Corporation and its subsidiaries' names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or tradenames of United Technologies Corporation and its subsidiaries. Names, abbreviations of names, logos, and products and service designators of other companies are either the registered or unregistered trademarks or tradenames of their respective owners. As used herein, the terms "we," "us," "our," "the Company," or "UTC," unless the context otherwise requires, mean United Technologies Corporation ar its subsidiaries. References to internet web sites in this Form 10-Q are provided for convenience only. Information available through these web sites is not incorporated by reference into this Form 10-Q.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

UNITED TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

| | Quarter Ended June 30, | |
|---|---|---|
| (Dollars in millions, except per share amounts) | 2013 | 2012 |
| Net Sales: | | |
| Product sales | $11,661 | $9,585 |
| Service sales | 4,345 | 4,222 |
| | 16,006 | 13,807 |
| Costs and Expenses: | | |
| Cost of products sold | 8,712 | 7,123 |
| Cost of services sold | 2,840 | 2,811 |
| Research and development | 631 | 525 |
| Selling, general and administrative | 1,737 | 1,509 |
| | 13,920 | 11,968 |
| Other income, net | 421 | 340 |
| Operating profit | 2,507 | 2,179 |
| Interest expense, net | 217 | 168 |
| Income from continuing operations before income taxes | 2,290 | 2,011 |
| Income tax expense | 645 | 453 |
| Net income from continuing operations | 1,645 | 1,558 |
| Less: Noncontrolling interest in subsidiaries' earnings from continuing operations | 93 | 92 |
| Income from continuing operations attributable to common shareowners | 1,552 | 1,466 |
| Discontinued operations (Note 2): | | |
| Income (loss) from operations | 43 | (182) |
| Loss on disposal | (25) | (31) |
| Income tax (expense) benefit | (10) | 77 |
| Income (loss) from discontinued operations | 8 | (136) |
| Less: Noncontrolling interest in subsidiaries' earnings from discontinued operations | — | 2 |
| Income (loss) from discontinued operations attributable to common shareowners | 8 | (138) |
| Net income attributable to common shareowners | $1,560 | $1,328 |
| Comprehensive income | $1,515 | $721 |
| Less: Comprehensive income attributable to noncontrolling interest | 88 | 67 |
| Comprehensive income attributable to common shareowners | $1,427 | $654 |
| Earnings Per Share of Common Stock - Basic: | | |
| Income from continuing operations attributable to common shareowners | $1.72 | $1.64 |
| Net income attributable to common shareowners | $1.73 | $1.49 |
| Earnings Per Share of Common Stock - Diluted: | | |
| Income from continuing operations attributable to common shareowners | $1.70 | $1.62 |
| Net income attributable to common shareowners | $1.71 | $1.47 |

See accompanying Notes to Condensed Consolidated Financial Statements

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UNITED TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

| | Six Months Ended June 30, | |
|---|---|---|
| (Dollars in millions, except per share amounts) | 2013 | 2012 |
| Net Sales: | | |
| Product sales | $21,916 | $18,004 |
| Service sales | 8,489 | 8,219 |
| | 30,405 | 26,223 |
| Costs and Expenses: | | |
| Cost of products sold | 16,560 | 13,446 |
| Cost of services sold | 5,457 | 5,418 |
| Research and development | 1,241 | 1,069 |
| Selling, general and administrative | 3,364 | 3,038 |
| | 26,622 | 22,971 |
| Other income, net | 730 | 640 |
| Operating profit | 4,513 | 3,892 |
| Interest expense, net | 453 | 297 |
| Income from continuing operations before income taxes | 4,060 | 3,595 |
| Income tax expense | 1,063 | 773 |
| Net income from continuing operations | 2,997 | 2,822 |
| Less: Noncontrolling interest in subsidiaries' earnings from continuing operations | 175 | 167 |
| Income from continuing operations attributable to common shareowners | 2,822 | 2,655 |
| Discontinued operations (Note 2): | | |
| Income (loss) from operations | 63 | (1,108) |
| Loss on disposal | (40) | (36) |
| Income tax (expense) benefit | (19) | 151 |
| Income (loss) from discontinued operations | 4 | (993) |
| Less: Noncontrolling interest in subsidiaries' earnings from discontinued operations | — | 4 |
| Income (loss) from discontinued operations attributable to common shareowners | 4 | (997) |
| Net income attributable to common shareowners | $2,826 | $1,658 |
| Comprehensive income | $2,423 | $1,625 |
| Less: Comprehensive income attributable to noncontrolling interest | 149 | 152 |
| Comprehensive income attributable to common shareowners | $2,274 | $1,473 |
| Earnings Per Share of Common Stock - Basic: | | |
| Income from continuing operations attributable to common shareowners | $3.13 | $2.98 |
| Net income attributable to common shareowners | $3.14 | $1.86 |
| Earnings Per Share of Common Stock - Diluted: | | |
| Income from continuing operations attributable to common shareowners | $3.09 | $2.94 |
| Net income attributable to common shareowners | $3.09 | $1.83 |

See accompanying Notes to Condensed Consolidated Financial Statements

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UNITED TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

| (Dollars in millions) | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $4,909 | $4,819 |
| Accounts receivable, net | 11,158 | 11,099 |
| Inventories and contracts in progress, net | 10,232 | 9,537 |
| Future income tax benefits, current | 1,589 | 1,611 |
| Assets held for sale | — | 1,071 |
| Other assets, current | 902 | 1,473 |
| Total Current Assets | 28,790 | 29,610 |
| Customer financing assets | 1,147 | 1,150 |
| Future income tax benefits | 1,596 | 1,599 |
| Fixed assets | 18,009 | 18,065 |
| Less: Accumulated depreciation | (9,610) | (9,547) |
| Fixed assets, net | 8,399 | 8,518 |
| Goodwill | 27,835 | 27,801 |
| Intangible assets, net | 15,301 | 15,189 |
| Other assets | 5,676 | 5,542 |
| Total Assets | $88,744 | $89,409 |
| Liabilities and Equity | | |
| Short-term borrowings | $196 | $503 |
| Accounts payable | 6,645 | 6,431 |
| Accrued liabilities | 15,238 | 15,310 |
| Liabilities held for sale | — | 421 |
| Long-term debt currently due | 1,085 | 1,121 |
| Total Current Liabilities | 23,164 | 23,786 |
| Long-term debt | 20,375 | 21,597 |
| Future pension and postretirement benefit obligations | 7,231 | 7,520 |
| Other long-term liabilities | 9,431 | 9,199 |
| Total Liabilities | 60,201 | 62,102 |
| Commitments and contingent liabilities (Note 13) | | |
| Redeemable noncontrolling interest | 174 | 238 |
| Shareowners' Equity: | | |
| Common Stock | 14,398 | 13,976 |
| Treasury Stock | (19,908) | (19,251) |
| Retained earnings | 38,629 | 36,776 |
| Unearned ESOP shares | (132) | (139) |
| Accumulated other comprehensive loss | (6,000) | (5,448) |
| Total Shareowners' Equity | 26,987 | 25,914 |
| Noncontrolling interest | 1,382 | 1,155 |
| Total Equity | 28,369 | 27,069 |
| Total Liabilities and Equity | $88,744 | $89,409 |

See accompanying Notes to Condensed Consolidated Financial Statements

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UNITED TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

| | Six Months Ended June 30, | |
|---|---|---|
| (Dollars in millions) | 2013 | 2012 |
| Operating Activities of Continuing Operations: | | |
| Income from continuing operations | $2,997 | $2,822 |
| Adjustments to reconcile income from continuing operations to net cash flows provided by operating activities of continuing operations: | | |
| Depreciation and amortization | 883 | 625 |
| Deferred income tax provision | 10 | 11 |
| Stock compensation cost | 133 | 96 |
| Change in: | | |
| Accounts receivable | (282) | 262 |
| Inventories and contracts in progress | (974) | (1,049) |
| Other current assets | 68 | (58) |
| Accounts payable and accrued liabilities | 924 | 744 |
| Global pension contributions | (51) | (24) |
| Other operating activities, net | (360) | (403) |
| Net cash flows provided by operating activities of continuing operations | 3,348 | 3,026 |
| Investing Activities of Continuing Operations: | | |
| Capital expenditures | (664) | (431) |
| Investments in businesses | (66) | (209) |
| Dispositions of businesses | 1,299 | 284 |
| (Increase) decrease in customer financing assets, net | (27) | 26 |
| Increase in restricted cash, net | (2) | (10,696) |
| Increase in collaboration intangible assets | (300) | (1,244) |
| Other investing activities, net | (132) | (2) |
| Net cash flows provided by (used in) investing activities of continuing operations | 108 | (12,272) |
| Financing Activities of Continuing Operations: | | |
| (Repayment) issuance of long-term debt, net | (1,224) | 10,784 |
| Decrease in short-term borrowings, net | (302) | (418) |
| Proceeds from Common Stock issued under employee stock plans | 222 | 138 |
| Dividends paid on Common Stock | (930) | (825) |
| Repurchase of Common Stock | (670) | — |
| Other financing activities, net | (83) | (302) |
| Net cash flows (used in) provided by financing activities of continuing operations | (2,987) | 9,377 |
| Discontinued Operations: | | |
| Net cash (used in) provided by operating activities | (694) | 3 |
| Net cash provided by (used in) investing activities | 351 | (7) |
| Net cash used in financing activities | — | — |
| Net cash flows used in discontinued operations | (343) | (4) |
| Effect of foreign exchange rate changes on cash and cash equivalents | (53) | (37) |
| Net increase in cash and cash equivalents | 73 | 90 |
| Cash and cash equivalents, beginning of year | 4,836 | 5,960 |
| Cash and cash equivalents, end of period | 4,909 | 6,050 |
| Less: Cash and cash equivalents of businesses held for sale | — | 84 |
| Cash and cash equivalents of continuing operations, end of period | $4,909 | $5,966 |

See accompanying Notes to Condensed Consolidated Financial Statements



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UNITED TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Condensed Consolidated Financial Statements at June 30, 2013 and for the quarters and six months ended June 30, 2013 and 2012 are unaudited, but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods. The results reported in these Condensed Consolidated Financial Statements should not necessarily be taken as indicative of results that may be expected for the entire year. Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. The financial information included herein should be read in conjunction with the financial statements and notes in our Annual Report to Shareowners (2012 Annual Report) incorporated by reference to our Annual Report on Form 10-K for calendar year 2012 (2012 Form 10-K).

Note 1: Acquisitions, Dispositions, Goodwill and Other Intangible Assets

Business Acquisitions and Dispositions. During the first six months of 2013, our cash investment in business acquisitions was $66 million, and consisted of a number of small acquisitions, primarily in our commercial businesses.

On May 17, 2013, we completed the sale of the Pratt & Whitney Power Systems business to Mitsubishi Heavy Industries (MHI) and entered into a long-term engineering and manufacturing agreement with MHI. The sale generated a pre-tax gain of approximately $193 million ($132 million after tax). Cash received in connection with the sale was $432 million, excluding contingent consideration valued at approximately $200 million. Pratt & Whitney Power Systems has not been reclassified to Discontinued Operations due to our level of continuing involvement in the business post-sale.

On February 7, 2013, we completed the acquisition of Grupo Ascensores Enor, S.A. (Enor), a privately held company headquartered in Spain with operations in Spain and Portugal, which designs, manufactures, installs and services elevators. Enor's 2012 sales were approximately $50 million. Under the terms of the transaction, Zardoya Otis, S.A. (ZOSA), a non-wholly owned subsidiary of the Company, exchanged publicly traded shares of ZOSA with a fair value of approximately $240 million as of the transaction completion date for all of the shares of Enor.

On July 26, 2012, UTC acquired Goodrich Corporation (Goodrich), a global supplier of systems and services to the aerospace and defense industry with 2011 sales of $8.1 billion. Goodrich products include aircraft nacelles and interior, actuation, landing and electronic systems. Under the terms of the agreement, Goodrich shareholders received $127.50 in cash for each share of Goodrich common stock they owned on July 26, 2012. This equated to a total enterprise value of $18.3 billion, including $1.9 billion in net debt assumed. The acquired Goodrich businesses were combined with the legacy Hamilton Sundstrand businesses to form the new UTC Aerospace Systems segment. The Goodrich acquisition and the formation of UTC Aerospace Systems provides increased scale, financial strength and complementary product offerings, allowing us to significantly strengthen our position in the aerospace and defense industry, create aftermarket efficiencies for our customers, accelerate our ability to drive innovation within the aerospace industry, and enhance our ability to support our customers with more integrated systems. This acquisition, coupled with our acquisition of an additional interest in IAE International Aero Engines AG (IAE), as discussed below, further advances UTC's strategy of focusing on our core businesses.

To finance the cash consideration for the Goodrich acquisition and pay related fees, expenses and other amounts due and payable, we utilized the previously disclosed net proceeds of approximately $9.6 billion from the $9.8 billion of long-term notes issued on June 1, 2012, the net proceeds of approximately $1.1 billion from the equity units issued on June 18, 2012, $3.2 billion from the issuance of commercial paper during July 2012, and $2.0 billion of proceeds borrowed under our April 24, 2012 term loan credit agreement. For the remainder of the cash consideration, we utilized approximately $0.5 billion of cash and cash equivalents generated from operating activities.

Allocation of Consideration Transferred to Net Assets Acquired:

The following amounts represent the final determination of the fair value of identifiable assets acquired and liabilities assumed from the Goodrich acquisition, through completion of the one year measurement period from the date of acquisition as required by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805, “Business Combinations” (ASC Topic 805). Measurement period adjustments were not significant

and were not retroactively reclassified to prior periods.

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| (Dollars in millions) | |
|---|---|
| Cash and cash equivalents | $538 |
| Accounts receivable, net | 1,205 |
| Inventories and contracts in progress, net | 1,673 |
| Future income tax benefits, current | 266 |
| Other assets, current | 647 |
| Fixed assets | 2,209 |
| Intangible assets: | |
| Customer relationships and related program assets | 8,550 |
| Trademarks | 1,550 |
| Other assets | 1,593 |
| Short-term borrowings | (84) |
| Accounts payable | (587) |
| Accrued liabilities | (2,052) |
| Long-term debt | (2,961) |
| Future pension and postretirement benefit obligations | (1,743) |
| Other long-term liabilities: | |
| Customer contractual obligations | (2,200) |
| Other long-term liabilities | (3,723) |
| Noncontrolling interest | (41) |
| Total identifiable net assets | 4,840 |
| Goodwill | 11,580 |
| Total consideration transferred | $16,420 |

In order to allocate the consideration transferred for Goodrich, the fair values of all identifiable assets and liabilities needed to be established. For accounting and financial reporting purposes, fair value is defined under FASB ASC Topic 820, "Fair Value Measurements and Disclosures" (ASC Topic 820) as the price that would be received upon sale of an asset or the amount paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market participants are assumed to be buyers and sellers in the principal (most advantageous) market for the asset or liability. Additionally, fair value measurements for an asset assume the highest and best use of that asset by market participants. Use of different estimates and judgments could yield different results.

In determining the fair value of identifiable assets acquired and liabilities assumed, a review was conducted for any significant contingent assets or liabilities existing as of the acquisition date. As of June 30, 2013, no significant contingencies related to existing legal or government action have been identified which existed as of the opening balance sheet date. Based upon our existing practices and phase II environmental assessments done on a number of Goodrich sites, we have determined that environmental liability obligations of $325 million were assumed in connection with the Goodrich acquisition.

The fair values of the customer relationships and related program intangible assets, which include the related aerospace program original equipment manufacturing (OEM) and aftermarket cash flows, were determined by using an "income approach" which is the most common valuation approach utilized. Under this approach, the net earnings attributable to the asset or liability being measured are isolated using the discounted projected net cash flows. These projected cash flows are isolated from the projected cash flows of the combined asset group over the remaining economic life of the intangible asset or liability being measured. Both the amount and the duration of the cash flows are considered from a market participant perspective. Our estimates of market participant net cash flows considered historical and projected pricing, remaining developmental effort, operational performance including company specific synergies, aftermarket retention, product life cycles, material and labor pricing, and other relevant customer, contractual and market factors. Where appropriate, the net cash flows are probability-adjusted to reflect the uncertainties associated with the underlying assumptions, as well as the risk profile of the net cash flows utilized in the valuation. The probability-adjusted future cash flows are then discounted to present value using an appropriate

discount rate. The customer relationship and related program intangible assets are being amortized on a straight-line basis

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(which approximates the economic pattern of benefits) over the estimated economic life of the underlying programs of 10 to 25 years.

We also identified customer contractual obligations on certain OEM development programs where the expected costs exceed the expected revenue under contract. We measured these liabilities under the measurement provisions of ASC Topic 820, which is based on the price to transfer the obligation to a market participant at the measurement date, assuming that the liability will remain outstanding in the marketplace. Based on the estimated net cash outflows of the OEM developmental programs plus a reasonable contracting profit margin required to transfer the contracts to market participants, we recorded assumed liabilities of approximately $2.2 billion. These liabilities will be liquidated in accordance with the underlying economic pattern of obligations, as reflected by the net cash outflows incurred on the OEM developmental programs. Total consumption of the contractual obligation for the quarter and six months ended June 30, 2013 was approximately $71 million and $150 million, respectively. Total consumption of the contractual obligation is expected to be as follows: $134 million remaining in 2013, $286 million in 2014, $218 million in 2015, $239 million in 2016, $236 million in 2017 and $873 million thereafter.

Goodrich had not recorded an income tax liability on the unremitted earnings of its non-U.S. subsidiaries, which were approximately $853 million as of December 31, 2011. In connection with the Goodrich acquisition, UTC made a determination to repatriate certain of these unremitted earnings, making such amounts subject to both U.S. and non-U.S. income taxes. Accordingly, an income tax liability of $219 million was recorded in purchase accounting for the unremitted earnings no longer considered permanently reinvested.

In 2010, Pratt & Whitney entered into a preferred supplier contract with Goodrich for the development and subsequent production of nacelles for the PW1500G (Bombardier C Series) and PW1200G (Mitsubishi Regional Jet). That preferred supplier contract replaced previous contracts and preliminary Memorandum of Understandings entered into in 2006 and 2008. Under the 2010 agreement, Pratt & Whitney agreed to fund Goodrich's non-recurring development effort and established a recurring price for the production nacelles. Prior to the date of the Goodrich acquisition, Pratt & Whitney and Goodrich had asserted claims against each other in a contractual dispute and would have ultimately arbitrated the matter were it not for the acquisition. In accordance with ASC Topic 805, pre-existing relationships must be effectively settled at acquisition as the relationships become intercompany relationships upon acquisition and are eliminated in the post-combination financial statements. Any resulting settlement gains or losses should be measured at fair value and recorded on the acquisition date. Accordingly, a $46 million gain was recorded in other income by Pratt & Whitney in the quarter ended September 30, 2012 based upon a third party determination of the probability-weighted outcome had the matter gone to arbitration. No additional gain or loss was recorded in connection with the settlement of these pre-existing relationships as we determined that the terms of these two contracts were consistent with other similar market transactions at the time of our acquisition of Goodrich.

Under Goodrich's pre-existing management continuity arrangements (MCAs), we assumed change-in-control obligations related to certain executives at Goodrich. We evaluated the change-in-control provisions governed by the MCAs and for certain of the executives, we determined that we had assumed liabilities of approximately $74 million as the benefit payments were effectively single trigger arrangements in substance. We measured the assumed liability based on fair value concepts of ASC Topic 820, using weighted average techniques of possible outcomes of the employees electing to receive such benefits. We expensed approximately $12 million in the quarter ended September 30, 2012 for MCAs where we amended the term of the MCAs beyond the original expiration date for certain executives. We incurred expense of approximately $9 million in connection with MCA payments made during the quarter ended June 30, 2013.

Supplemental Pro-Forma Data:

Goodrich's results of operations have been included in UTC's financial statements for the periods subsequent to the completion of the acquisition on July 26, 2012. The following unaudited supplemental pro-forma data for the quarter and six months ended June 30, 2012 presents consolidated information as if the acquisition had been completed on January 1, 2011. There were no significant pro-forma adjustments required for the quarter and six months ended June 30, 2013. The pro-forma results were calculated by combining the results of UTC with the stand-alone results of Goodrich for the pre-acquisition periods, which were adjusted to account for certain costs which would have been incurred during this pre-acquisition period:

| (Dollars in millions, except per share amounts) | Quarter Ended June 30, 2012 | Six Months Ended June 30, 2012 |
|---|---|---|
| Net sales | $ 15,802 | $ 30,218 |
| Net income attributable to common shareowners from continuing operations | 1,542 | 2,830 |
| Basic earnings per share of common stock from continuing operations | 1.73 | 3.17 |
| Diluted earnings per share of common stock from continuing operations | 1.70 | 3.13 |

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The unaudited supplemental pro-forma data above includes the following significant adjustments made to account for certain costs which would have been incurred if the acquisition had been completed on January 1, 2011, as adjusted for the applicable tax impact:

| (Dollars in millions) | Quarter Ended June 30, 2012 | Six Months Ended June 30, 2012 |
|---|---|---|
| Amortization of acquired Goodrich intangible assets, net[1] | $46 | $92 |
| Utilization of contractual customer obligation[2] | (47) | (93) |
| UTC/Goodrich fees for advisory, legal, accounting services[3] | (29) | (57) |
| Interest expense incurred on acquisition financing, net[4] | 24 | 67 |

1 Added the additional amortization of the acquired Goodrich intangible assets recognized at fair value in purchase accounting and eliminated the historical Goodrich intangible asset amortization expense.
2 Added the additional utilization of the Goodrich contractual customer obligation recognized in purchase accounting.

3 Removed the UTC/Goodrich fees that were incurred in connection with the acquisition of Goodrich from the first quarter and six months of 2012, and considered those fees as incurred during the corresponding periods of 2011.
4 Added the additional interest expense for the indebtedness we incurred to finance the acquisition of Goodrich and reduced interest expense for the debt fair value adjustment which would have been amortized.

The unaudited supplemental pro-forma financial information does not reflect the potential realization of cost savings relating to the integration of the two companies. Further, the pro-forma data should not be considered indicative of the results that would have occurred if the acquisition and related financing had been consummated on January 1, 2011, nor are they indicative of future results.

In connection with regulatory approval of UTC's acquisition of Goodrich, regulatory authorities required UTC to dispose of the Goodrich electric power systems and the Goodrich pumps and engine controls businesses. Pursuant to regulatory obligations, these businesses had been held separately from UTC's and Goodrich's ongoing businesses since the acquisition of Goodrich by UTC. On March 18, 2013, we completed the sale of the Goodrich pumps and engine controls business to Triumph Group, Inc., and on March 26, 2013, we completed the sale of the Goodrich electric power systems business to Safran S.A. Combined proceeds from the sales of the two businesses were approximately $600 million.

In 2012, the UTC Board of Directors approved plans for the divestiture of a number of non-core businesses. Cash generated from these divestitures is being used to repay debt incurred to finance the acquisition of Goodrich. See Note 2 for further discussion.

On June 29, 2012, Pratt & Whitney, Rolls Royce plc (Rolls-Royce), MTU Aero Engines AG (MTU), and Japanese Aero Engines Corporation (JAEC), participants in the IAE collaboration, completed a restructuring of their interests in IAE. Under the terms of the agreement, Rolls-Royce sold its ownership and collaboration interests in IAE to Pratt & Whitney, while also entering into an agreement to license its V2500 intellectual property to Pratt & Whitney. In exchange for the increased ownership and collaboration interests and intellectual property license, Pratt & Whitney paid Rolls-Royce $1.5 billion at closing with additional payments due to Rolls-Royce during the fifteen year period following closing of the purchase, conditional upon each hour flown by V2500-powered aircraft in service at the closing. The collaboration interest and intellectual property licenses are reflected as intangible assets and will be amortized in relation to the economic benefits received over the remaining estimated 30 year life of the V2500 program. As a result of these transactions, Pratt & Whitney holds a 61% net interest in the collaboration and a 49.5% ownership interest in IAE. IAE’s business purpose is to coordinate the design, development, manufacturing and product support of the V2500 program through involvement with the collaborators. IAE retains limited equity with the primary economics of the V2500 program passed to the participants in the separate collaboration arrangement. As such, we have determined that IAE is a variable interest entity, and Pratt & Whitney its primary beneficiary under the criteria established in the FASB ASC Topic 810 “Consolidations” and has, therefore, been consolidated. The carrying amounts and classification of assets and liabilities for IAE in our Consolidated Balance Sheet as of June 30, 2013 are as follows:

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| (Dollars in millions) | |
|---|---|
| Current assets | $1,482 |
| Noncurrent assets | 961 |
| Total assets | $2,443 |
| | |
| Current liabilities | $1,678 |
| Noncurrent liabilities | 983 |
| Total liabilities | $2,661 |

Goodwill. Changes in our goodwill balances for the six months ended June 30, 2013 were as follows:

| (Dollars in millions) | Balance as of January 1, 2013 | Goodwill resulting from business combinations | Foreign currency translation and other | Balance as of June 30, 2013 |
|---|---|---|---|---|
| Otis | $ 1,583 | $126 | $ (62) | $1,647 |
| UTC Climate, Controls & Security | 9,868 | 2 | (253) | 9,617 |
| Pratt & Whitney | 1,238 | — | 35 | 1,273 |
| UTC Aerospace Systems | 14,754 | 298 | (107) | 14,945 |
| Sikorsky | 353 | — | (4) | 349 |
| Total Segments | 27,796 | 426 | (391) | 27,831 |
| Eliminations and other | 5 | — | (1) | 4 |
| Total | $ 27,801 | $426 | $ (392) | $27,835 |

Intangible Assets. Identifiable intangible assets are comprised of the following:

| | June 30, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| (Dollars in millions) | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| Amortized: | | | | |
| Service portfolios | $2,181 | $(1,216) | $2,127 | $(1,202) |
| Patents and trademarks | 378 | (171) | 412 | (167) |
| IAE collaboration | 1,845 | — | 1,526 | — |
| Customer relationships and other | 11,944 | (1,911) | 11,901 | (1,718) |
| | 16,348 | (3,298) | 15,966 | (3,087) |
| Unamortized: | | | | |
| Trademarks and other | 2,251 | — | 2,310 | — |
| Total | $18,599 | $(3,298) | $18,276 | $(3,087) |

The customer relationships intangible assets include payments made to our customers to secure certain contractual rights and are being amortized on a straight-line basis, as it approximates the underlying economic pattern of benefits. In accordance with the FASB ASC Topic 605, "Customer Payments and Incentives," we classify amortization of such payments as a reduction of sales. The IAE collaboration intangible asset is being amortized based upon the economic pattern of benefits as represented by the underlying cash flows. As these cash flows have been negative to date, no amortization has yet been recorded. Amortization of intangible assets for the quarter and six months ended June 30, 2013 was $176 million and $351 million respectively, compared with $96 million and $195 million for the same periods of 2012. The following is the expected amortization of intangible assets for the years 2013 through 2018:

| (Dollars in millions) | Remaining 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Amortization expense | $342 | $670 | $633 | $614 | $607 | $634 |

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Note 2: Discontinued Operations

In 2012, the UTC Board of Directors approved plans for the divestiture of a number of non-core businesses, which were completed with the sale of Pratt & Whitney Rocketdyne (Rocketdyne), as discussed below. Cash generated from these divestitures has been used to repay debt incurred to finance the Goodrich acquisition.

On June 14, 2013, we completed the sale of substantially all operations of Rocketdyne to GenCorp Inc. The sale generated a pre-tax loss of approximately $17 million ($10 million after tax) which has been included in discontinued operations in the Condensed Consolidated Statement of Comprehensive Income. We had previously recorded pre-tax goodwill impairment charges of approximately $360 million ($220 million after tax) during the six months ended June 30, 2012 related to Rocketdyne.

On February 12, 2013, we completed the disposition of UTC Power to ClearEdge Power. The disposition resulted in payments by UTC totaling $48 million, which included capitalization of the business prior to the sale and interim funding of operations as the buyer took control of a loss generating business. We have no continuing involvement with the UTC Power business post disposition.

The legacy Hamilton Sundstrand Industrial businesses, as well as Clipper Windpower (Clipper), Rocketdyne and UTC Power all met the "held-for-sale" criteria in 2012. The results of operations, including the net realized gains and losses on disposition, and the related cash flows which result from these non-core businesses, have been reclassified to Discontinued Operations in our Condensed Consolidated Statements of Comprehensive Income and Cash Flows. The dispositions of Clipper and the legacy Hamilton Sundstrand Industrial businesses were completed in 2012.

The following summarized financial information for our discontinued operations businesses, up to the point of sale, has been segregated from continuing operations and reported as Discontinued Operations:

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (Dollars in millions) | 2013 | 2012 | 2013 | 2012 |
| Discontinued Operations: | | | | |
| Net sales | $146 | $562 | $309 | $1,086 |
| Income (loss) from operations | $43 | $(182) | $63 | $(1,108) |
| Income tax (expense) benefit | (24) | 76 | (32) | 160 |
| Income (loss) from operations, net of income taxes | 19 | (106) | 31 | (948) |
| Loss on disposal | (25) | (31) | (40) | (36) |
| Income tax benefit (expense) | 14 | 1 | 13 | (9) |
| Net income (loss) on discontinued operations | $8 | $(136) | $4 | $(993) |

Income (loss) from operations of discontinued operations for the quarter and six months ended June 30, 2012 includes pre-tax impairment charges of approximately $179 million and $1,135 million, respectively. These amounts were previously included in loss on disposal of discontinued operations and have been reclassified for consistency of presentation.

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Note 3: Earnings Per Share

| (Dollars in millions, except per share amounts; shares in millions) | Quarter Ended June 30, 2013 | Quarter Ended June 30, 2012 | Six Months Ended June 30, 2013 | Six Months Ended June 30, 2012 |
|---|---|---|---|---|
| Net income attributable to common shareowners: | | | | |
| Net income from continuing operations | $1,552 | $1,466 | $2,822 | $2,655 |
| Net income (loss) from discontinued operations | 8 | (138) | 4 | (997) |
| Net income attributable to common shareowners | $1,560 | $1,328 | $2,826 | $1,658 |
| Basic weighted average number of shares outstanding | 901.1 | 893.4 | 901.0 | 892.1 |
| Stock awards | 13.0 | 11.4 | 12.8 | 12.1 |
| Diluted weighted average number of shares outstanding | 914.1 | 904.8 | 913.8 | 904.2 |
| Earnings (Loss) Per Share of Common Stock - Basic: | | | | |
| Net income from continuing operations | $1.72 | $1.64 | $3.13 | $2.98 |
| Net income (loss) from discontinued operations | 0.01 | (0.16) | 0.01 | (1.12) |
| Net income attributable to common shareowners | 1.73 | 1.49 | 3.14 | 1.86 |
| Earnings (Loss) Per Share of Common Stock - Diluted: | | | | |
| Net income from continuing operations | $1.70 | $1.62 | $3.09 | $2.94 |
| Net income (loss) from discontinued operations | 0.01 | (0.15) | 0.01 | (1.10) |
| Net income attributable to common shareowners | 1.71 | 1.47 | 3.09 | 1.83 |

The computation of diluted earnings per share excludes the effect of the potential exercise of stock awards, including stock appreciation rights and stock options, when the average market price of the common stock is lower than the exercise price of the related stock awards during the period. These outstanding stock awards are not included in the computation of diluted earnings per share because the effect would be anti-dilutive. For the quarter ended June 30, 2013 there were no anti-dilutive stock awards excluded from the computation. For the quarter ended June 30, 2012, there were 6.2 million anti-dilutive stock awards excluded from the computation. For the six months ended June 30, 2013 and 2012 there were no anti-dilutive stock awards excluded from the computation. There was no impact on diluted earnings per share due to our equity unit offering in 2012.

Note 4: Inventories and Contracts in Progress

| (Dollars in millions) | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Raw materials | $1,928 | $1,861 |
| Work-in-process | 4,544 | 4,151 |
| Finished goods | 3,385 | 3,205 |
| Contracts in progress | 7,689 | 7,354 |
| | 17,546 | 16,571 |
| Less: | | |
| Progress payments, secured by lien, on U.S. Government contracts | (321) | (274) |
| Billings on contracts in progress | (6,993) | (6,760) |
| | $10,232 | $9,537 |

As of June 30, 2013 and December 31, 2012, inventories include capitalized contract development costs of $837 million and $823 million, respectively, related to certain aerospace programs. These capitalized costs are liquidated as production units are delivered to the customer. The capitalized contract development costs within inventories principally relate to costs capitalized on Sikorsky’s CH-148 contract with the Canadian Government. The CH-148 is a derivative of the H-92, a military variant of the S-92.

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Note 5: Borrowings and Lines of Credit

| (Dollars in millions) | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Commercial paper | $50 | $320 |
| Other borrowings | 146 | 183 |
| Total short-term borrowings | $196 | $503 |

At June 30, 2013, we had revolving credit agreements with various banks permitting aggregate borrowings of up to $4 billion pursuant to a $2 billion revolving credit agreement and a $2 billion multicurrency revolving credit agreement, both of which expire in November 2016. As of June 30, 2013, there were no borrowings under either of these revolving credit agreements. The undrawn portions of these revolving credit agreements are also available to serve as backup facilities for the issuance of commercial paper. As of June 30, 2013, our maximum commercial paper borrowing authority as set by our Board of Directors was $4 billion. We use our commercial paper borrowings for general corporate purposes, including the funding of potential acquisitions, debt refinancing, and repurchases of our common stock.

On May 7, 2013, we commenced cash tender offers for two series of outstanding notes issued by Goodrich and the 1.200% Senior Notes issued by UTC. These offers expired on June 4, 2013. Holders validly tendering their notes by May 21, 2013 received consideration determined by reference to a fixed spread over the yield to maturity of the applicable U.S. Treasury security with the same maturity as the note being tendered, plus an early tender payment of $50 per $1,000 principal amount of notes accepted for purchase. Holders validly tendering their notes after May 21, 2013 but prior to June 4, 2013 received consideration determined by reference to a fixed spread over the yield to maturity of the applicable U.S. Treasury security with the same maturity as the notes being tendered. A total of $874 million principal amount of all notes subject to the tender offers, and $36 million of the fair value adjustment related to the notes assumed in the Goodrich acquisition, were repaid, including approximately $103 million principal amount of the 2016 Goodrich 6.290% notes, approximately $98 million principal amount of the 2019 Goodrich 6.125% notes, and approximately $674 million principal amount of the 2015 UTC Senior Notes. An extinguishment loss of approximately $18 million was recognized within Interest expense, net in the accompanying Condensed Consolidated Statements of Comprehensive Income.

On June 24, 2013, we redeemed all remaining outstanding 1.200% Senior Notes due 2015, representing $327 million in aggregate principal, under our redemption notice issued on May 24, 2013. An extinguishment loss of approximately $6 million was recognized within Interest expense, net in the accompanying Condensed Consolidated Statements of Comprehensive Income.

On July 24, 2013, we called for redemption of all outstanding 6.125% notes due March 1, 2019 issued by Goodrich, representing approximately $202 million in aggregate principal, to be redeemed in August 2013. These Goodrich notes are being refinanced to achieve future interest savings.

As previously disclosed, on December 6, 2012, we announced that we had commenced cash tender offers for six series of outstanding notes issued by Goodrich. These offers expired on January 7, 2013. Approximately $637 million in aggregate principal amount of notes subject to the tender offers and $126 million of the fair value adjustment were repaid, with $635 million in aggregate principal amount being eligible for the early tender premium and approximately $2 million in aggregate principal amount being paid on January 8, 2013. An extinguishment loss of approximately $26 million was recognized within Interest expense, net during 2012.

Long-term debt consisted of the following:

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| (Dollars in millions) | June 30, 2013 | December 31, 2012 |
|---|---|---|
| LIBOR§ plus 0.270% floating rate notes due 2013 | $1,000 | $1,000 |
| LIBOR§ plus 0.500% floating rate notes due 2015 | 500 | 500 |
| 1.200% notes due 2015* | — | 1,000 |
| 4.875% notes due 2015* | 1,200 | 1,200 |
| 6.290% notes due 2016‡ | 188 | 291 |
| 5.375% notes due 2017* | 1,000 | 1,000 |
| 1.800% notes due 2017* | 1,500 | 1,500 |
| 6.800% notes due 2018‡ | 99 | 99 |
| 6.125% notes due 2019‡ | 202 | 300 |
| 6.125% notes due 2019* | 1,250 | 1,250 |
| 8.875% notes due 2019 | 272 | 272 |
| 4.500% notes due 2020* | 1,250 | 1,250 |
| 4.875% notes due 2020‡ | 171 | 171 |
| 3.600% notes due 2021‡ | 294 | 295 |
| 8.750% notes due 2021 | 250 | 250 |
| 3.100% notes due 2022* | 2,300 | 2,300 |
| 1.550% junior subordinated notes due 2022† | 1,100 | 1,100 |
| 7.100% notes due 2027‡ | 141 | 141 |
| 6.700% notes due 2028 | 400 | 400 |
| 7.500% notes due 2029* | 550 | 550 |
| 5.400% notes due 2035* | 600 | 600 |
| 6.050% notes due 2036* | 600 | 600 |
| 6.800% notes due 2036‡ | 134 | 134 |
| 7.000% notes due 2038‡ | 159 | 159 |
| 6.125% notes due 2038* | 1,000 | 1,000 |
| 5.700% notes due 2040* | 1,000 | 1,000 |
| 4.500% notes due 2042* | 3,500 | 3,500 |
| Project financing obligations | 73 | 100 |
| Other (including capitalized leases and discounts)‡ | 436 | 403 |
| Total principal long-term debt | 21,169 | 22,365 |
| Other (fair market value adjustment)‡ | 291 | 353 |
| Total long-term debt | 21,460 | 22,718 |
| Less: current portion | 1,085 | 1,121 |
| Long-term debt, net of current portion | $20,375 | $21,597 |

* We may redeem the above notes, in whole or in part, at our option at any time at a redemption price in U.S. Dollars equal to the greater of 100% of the principal amount of the notes to be redeemed or the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed, discounted to the redemption date on a semiannual basis at the adjusted treasury rate plus 10-50 basis points. The redemption price will also include interest accrued to the date of redemption on the principal balance of the notes being redeemed.

† The junior subordinated notes are redeemable at our option, in whole or in part, on a date not earlier than August 1, 2017. The redemption price will be the principal amount, plus accrued and unpaid interest, if any, up to but excluding the redemption date. We may extend or eliminate the optional redemption date as part of a remarketing of the junior subordinated notes which could occur between April 29, 2015 and July 15, 2015 or between July 23, 2015 and July 29, 2015.

‡ Includes notes and remaining fair market value adjustments that were assumed as a part of the Goodrich acquisition on July 26, 2012.

§ The three-month LIBOR rate as of June 30, 2013 was approximately 0.3%.

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We have an existing universal shelf registration statement filed with the Securities and Exchange Commission (SEC) for an indeterminate amount of equity and debt securities for future issuance, subject to our internal limitations on the amount of equity and debt to be issued under this shelf registration statement.

Note 6: Income Taxes

We conduct business globally and, as a result, UTC or one or more of our subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as Australia, Belgium, Canada, China, France, Germany, Hong Kong, Italy, Japan, South Korea, Singapore, Spain, the United Kingdom and the United States. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2000.

In the ordinary course of business, there is inherent uncertainty in quantifying our income tax positions. We assess our income tax positions and record tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Where applicable, associated interest has also been recognized; interest accrued in relation to unrecognized tax benefits is recorded in interest expense. Penalties, if incurred, would be recognized as a component of income tax expense.

It is reasonably possible that over the next twelve months the amount of unrecognized tax benefits may change within a range of a net increase of $30 million to a net decrease of $450 million as a result of additional worldwide uncertain tax positions, the revaluation of current uncertain tax positions arising from developments in examinations, in appeals or in the courts, or the closure of tax statutes. A portion of this net change may impact the Company's income tax expense. Not included in the range is €237 million (approximately $310 million) of tax benefits related to certain deductions claimed in France for tax years 2008 through 2011 that the French Revenue Authority has proposed to disallow. This amount includes a €61 million adjustment for tax year 2011 proposed during the quarter ended June 30, 2013. This is a recurring issue and it is expected that similar challenges will be raised in subsequent tax years until the issue is resolved. Resolution discussions with the French Revenue Authority on this matter have been unsuccessful to date and UTC may be required to pursue the defense of the issue through litigation, which could be commenced within the next twelve months. UTC intends to assert a vigorous defense and believes it should prevail on the issue. Accordingly, no tax expense has been accrued for this matter. Also, not included in the range is €203 million (approximately $266 million) of tax benefits that we have claimed related to a 1998 German reorganization. A portion of these tax benefits was denied by the German Tax Office on July 5, 2012, as a result of the audit of tax years 1999 to 2000. On August 3, 2012, the Company filed suit in the German Tax Court and expects to litigate this case. In 2008 the German Federal Tax Court denied benefits to another taxpayer in a case involving a German tax law relevant to our reorganization. The determination of the German Federal Tax Court on this other matter was appealed to the European Court of Justice (ECJ) to determine if the underlying German tax law is violative of European Union (EU) principles. On September 17, 2009 the ECJ issued an opinion in this case that is generally favorable to the other taxpayer and referred the case back to the German Federal Tax Court for further consideration of certain related issues. In May 2010, the German Federal Tax Court released its decision, in which it resolved certain tax issues that may be relevant to our audit and remanded the case to a lower court for further development. After consideration of the ECJ decision and the latest German Federal Tax Court decision, we continue to believe that it is more likely than not that the relevant German tax law is violative of EU principles and we have not accrued tax expense for this matter. As we continue to monitor developments related to this matter, it may become necessary for us to accrue tax expense and related interest.

UTC tax years 2006 through 2008 are currently before the Appeals Division of the IRS (IRS Appeals) for resolution discussions regarding certain proposed adjustments with which UTC does not agree and are currently expected to continue into 2014. Tax years 2009 and 2010 are under review by the Examination Division of the IRS (IRS Examination), which is expected to continue into 2014. During the quarter ended June 30, 2013, the Company recognized a settlement gain of approximately $34 million  for interest relating to the closure of IRS audits of UTC through 2005. This gain includes cash and non-cash components in the amounts of approximately $10 million and $24 million, respectively.

The Company is currently engaged in litigation regarding the proper timing of certain deductions taken by Goodrich in its tax years 2001 and 2002, prior to its acquisition by UTC, which is expected to continue through 2013. The Company is also engaged in litigation with respect to a separate issue involving the proper timing of deductions taken by Goodrich Corporation

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in its tax years 2005 and 2006, prior to its acquisition by UTC, which is currently expected to continue into 2014. This is a recurring issue and it is expected that the IRS will continue to challenge it in subsequent tax years, potentially including post-acquisition years, until the issue is resolved. Goodrich pre-acquisition tax years 2007 and 2008 are currently before IRS Appeals for resolution discussions regarding certain disputed proposed adjustments, including the recurring timing issue described above, and are currently expected to continue into 2014. During the quarter, the IRS completed examination activity of Goodrich pre-acquisition tax years 2009 and 2010 and transferred the case to IRS Appeals for resolution discussions regarding certain proposed adjustments with which the Company does not agree, including the recurring timing issue described above. The completion of 2009 and 2010 examination activity resulted in a non-cash settlement gain of approximately $24 million, including $2 million of interest, during the quarter ended June 30, 2013.

Note 7: Employee Benefit Plans

Pension and Postretirement Plans. We sponsor both funded and unfunded domestic and foreign defined pension and other postretirement benefit plans, and defined contribution plans. As part of our acquisition of Goodrich on July 26, 2012, we assumed approximately $1.5 billion of pension and postretirement benefit plan obligations. Contributions to our plans were as follows:

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (Dollars in millions) | 2013 | 2012 | 2013 | 2012 |
| Defined Benefit Plans | $22 | $11 | $51 | $24 |
| Defined Contribution Plans | $80 | $56 | $183 | $118 |

There were no contributions to our domestic defined benefit pension plans in the first six months of 2013 and 2012.

The following tables illustrate the components of net periodic benefit cost for our defined pension and other postretirement benefit plans:

| | Pension Benefits Quarter Ended June 30, | | Other Postretirement Benefits Quarter Ended June 30, | |
|---|---|---|---|---|
| (Dollars in millions) | 2013 | 2012 | 2013 | 2012 |
| Service cost | $142 | $115 | $1 | $1 |
| Interest cost | 343 | 313 | 9 | 8 |
| Expected return on plan assets | (526) | (456) | — | — |
| Amortization | (9) | (3) | (3) | — |
| Recognized actuarial net loss (gain) | 240 | 180 | (1) | (2) |
| Net settlement and curtailment (gain) loss | (14) | 7 | — | — |
| Total net periodic benefit cost | $176 | $156 | $6 | $7 |

| | Pension Benefits Six Months Ended June 30, | | Other Postretirement Benefits Six Months Ended June 30, | |
|---|---|---|---|---|
| (Dollars in millions) | 2013 | 2012 | 2013 | 2012 |
| Service cost | $286 | $230 | $2 | $2 |
| Interest cost | 686 | 626 | 19 | 16 |
| Expected return on plan assets | (1,053) | (912) | — | — |
| Amortization | (18) | (6) | (6) | — |
| Recognized actuarial net loss (gain) | 480 | 361 | (2) | (4) |
| Net settlement and curtailment (gain) loss | (17) | 35 | — | — |
| Total net periodic benefit cost | $364 | $334 | $13 | $14 |

Net settlements and curtailment gains for pension benefits include curtailment gains of approximately $19 million and $24 million related to, and recorded in, discontinued operations for the quarter and six months ended June 30, 2013,

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respectively. Net settlements and curtailment losses for pension benefits include curtailment losses of approximately $3 million and $24 million related to, and recorded in, discontinued operations for the quarter and six months ended June 30, 2012, respectively.

Note 8: Restructuring Costs

During the six months ended June 30, 2013, we recorded net pre-tax restructuring costs totaling $240 million for new and ongoing restructuring actions as follows:

| (Dollars in millions) | |
|---|---|
| Otis | $49 |
| UTC Climate, Controls & Security | 38 |
| Pratt & Whitney | 100 |
| UTC Aerospace Systems | 41 |
| Sikorsky | 14 |
| Restructuring costs recorded within continuing operations | 242 |
| Restructuring costs recorded within discontinued operations | (2) |
| Total | $240 |

The net costs included $101 million recorded in cost of sales, $140 million in selling, general and administrative expenses, $1 million in other income, net, and ($2) million in discontinued operations. As described below, these costs primarily relate to actions initiated during 2013 and 2012.

2013 Actions. During the six months ended June 30, 2013, we initiated restructuring actions relating to ongoing cost reduction efforts, including workforce reductions and the consolidation of field operations. We recorded net pre-tax restructuring costs totaling $202 million, including $68 million in cost of sales and $134 million in selling, general and administrative expenses.

We expect the actions initiated in the six months ended June 30, 2013 to result in net workforce reductions of approximately 2,400 hourly and salaried employees, the exiting of approximately 400 thousand net square feet of facilities and the disposal of assets associated with exited facilities. As of June 30, 2013, we have completed net workforce reductions of approximately 700 employees. We are targeting the majority of the remaining workforce and all facility related cost reduction actions for completion during 2013 and 2014. No specific plans for significant other actions have been finalized at this time.

The following table summarizes the accrual balances and utilization by cost type for the 2013 restructuring actions:

| (Dollars in millions) | Severance | Asset Write-Downs | Facility Exit, Lease Termination and Other Costs | Total |
|---|---|---|---|---|
| Restructuring accruals at March 31, 2013 | $13 | $— | $— | $13 |
| Net pre-tax restructuring costs | 163 | 12 | 7 | 182 |
| Utilization and foreign exchange | (23) | (12) | — | (35) |
| Balance at June 30, 2013 | $153 | $— | $7 | $160 |

The following table summarizes expected, incurred and remaining costs for the 2013 restructuring actions by type:

| (Dollars in millions) | Severance | Asset Write-Downs | Facility Exit, Lease Termination and Other Costs | Total |
|---|---|---|---|---|
| Expected costs | $215 | $12 | $33 | $260 |
| Costs incurred - quarter ended March 31, 2013 | (19) | — | (1) | (20) |
| Costs incurred - quarter ended June 30, 2013 | (163) | (12) | (7) | (182) |
| Balance at June 30, 2013 | $33 | $— | $25 | $58 |

The following table summarizes expected, incurred and remaining costs for the 2013 restructuring actions by segment:

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| (Dollars in millions) | Expected Costs | Costs incurred Quarter ended March 31, 2013 | Costs incurred Quarter ended June 30, 2013 | Remaining Costs at June 30, 2013 |
|---|---|---|---|---|
| Otis | $53 | $(6) | $(35) | $12 |
| UTC Climate, Controls & Security | 51 | (8) | (18) | 25 |
| Pratt & Whitney | 111 | (6) | (93) | 12 |
| UTC Aerospace Systems | 37 | — | (28) | 9 |
| Sikorsky | 8 | — | (8) | — |
| Total | $260 | $(20) | $(182) | $58 |

2012 Actions. During the six months ended June 30, 2013, we recorded net pre-tax restructuring costs totaling $38 million for restructuring actions initiated in 2012, including $31 million in cost of sales, $6 million in selling, general and administrative expenses, and $1 million in other income, net. The 2012 actions relate to ongoing cost reduction efforts, including workforce reductions and the consolidation of field operations.

As of June 30, 2013, we have completed net workforce reductions of approximately 5,900 employees of an expected 7,100 employees, and have exited approximately 1.4 million net square feet of facilities of an expected 3 million net square feet. We are targeting the majority of the remaining workforce and facility related cost reduction actions for completion during 2013 and 2014.

The following table summarizes the accrual balances and utilization by cost type for the 2012 restructuring actions:

| (Dollars in millions) | Severance | Asset Write-Downs | Facility Exit, Lease Termination and Other Costs | Total |
|---|---|---|---|---|
| Restructuring accruals at March 31, 2013 | $201 | $— | $51 | $252 |
| Net pre-tax restructuring costs | (1) | — | 10 | 9 |
| Utilization and foreign exchange | (58) | — | (14) | (72) |
| Balance at June 30, 2013 | $142 | $— | $47 | $189 |

The following table summarizes expected, incurred and remaining costs for the 2012 restructuring actions by type:

| (Dollars in millions) | Severance | Asset Write-Downs | Facility Exit, Lease Termination and Other Costs | Total |
|---|---|---|---|---|
| Expected costs | $480 | | | |